Time for a Fundamental Change

The following editorial by Buck McVeigh, WTA Executive Director, was sent out to statewide newspapers. So far the Laramie Daily Boomerang and the Northern Wyoming Daily News in Worland have run the editorial.

As Wyoming enters a bust cycle potentially more damaging to our economy than previous ones, the time for fundamental change is upon us. It is illogical for state government to continue today's spending levels without new revenue sources.

The severity of the challenges facing Wyoming is not a mere blip in the revenue stream, as some have suggested. It is staggering, to say the least. To put it into perspective, year-to-date sales and use tax collections are lagging last year by $129.3 million, or 20.3 percent, and severance tax revenue is off by $211.6 million, or 33.7 percent, from a year ago.

The duration of this pricing environment for oil and natural gas will likely last much longer than previously forecasted, and coal production revenues could plummet lower than they have been in decades. Even with a rebound in commodity prices that could combat massive market challenges for producers, the fossil fuel industry faces significant hurdles, particularly in the regulatory environment.

Fundamental change requires openness to all revenue options and an identification of needs versus wants when making necessary spending cuts. To do this, pragmatism and common sense must come before political perspectives. Unfortunately, the State has few revenue options for offsetting the sizable losses facing the state in the coming years.

For one more year, the Legislature was able to avoid new taxes and major program cuts by dipping into savings and opting for across-the-board cuts. While these spending cuts reduce the budgets of all departments, they fail in cutting waste. When cuts treat all programs the same, they penalize agencies operating efficiently and cause problems with economies of scale in divisions and programs within state government.

Future solutions to reduce the budget cannot come just from the Legislature, but must base themselves on a partnership with executive branch agencies. The onus of identifying and prioritizing programs should fall on agency management while the Legislature should determine the need and breadth of cuts.

Ideally, the State should consider innovative ways to change the current budget methodology, which fosters the "use or lose" mentality, because agencies currently exhaust funds at the end of the fiscal year to ensure they'll maintain the same level of funding in the next budget cycle. There is little if any motive or reward to return unused funds. Performance measures need to be developed to support and justify all agency budget requests. What isn't spent should be reverted. Then, allocation decisions would be based on performance, not previous funding level.
The Wyoming Taxpayers Association is committed to working with taxpayers and the business community to identify solutions and make recommendations to policymakers. The ideal time for objective, unbiased education and analysis is now during the interim period.

We are encouraged that the Appropriations, Revenue, and Education interim committees plan to discuss both spending and revenue issues in their interim studies. Wyoming cannot afford to continue to kick the can down the road, making it the next generation's problem.

Joint Revenue Interim Committee meeting in May

The WTA Executive Director Buck McVeigh will attend the upcoming Joint Revenue Interim Committee meeting being held in Douglas May 11-12. The purpose of the meeting is to receive information and consider issues related to the State Board of Equalization, revenue for school capital construction and local government funding. (Click here for the tentative agenda.) McVeigh plans to present testimony to encourage diversity in Wyoming's tax structure rather than placing more burden on the mineral industry.

Consensus Revenue Estimating Group update

The Consensus Revenue Estimating Group (CREG) released its April 2016 Revenue Update last week. (Read the update.) In the update, the CREG offers a cautionary note along with its collective best indication of the FY 2016 revenue collections should the remainder of the fiscal year continue in a manner comparable to the last few months. The information in this update represents revenue collections received from July 1, 2015 through March 2016. Another update is expected in July.

Current revenue collections directed to the General Fund, Budget Reserve Account and School Foundation Program account are clearly falling short of January 2016 CREG projections, in total. Although oil prices are garnering a great deal of attention, the natural gas prices incorporated into the January 2016 CREG forecast are currently diverging from actual prices more than those of oil. An environment of lower oil and natural gas prices and lower coal production could further reduce severance tax and FMR collections, as well as contribute to secondary impacts such as a prolonged, associated reduction in sales and use tax collections.

According to the CREG update, the current trends indicate:

- the total FY 2016 revenue forecasts for the GF, BRA, and SFP are unlikely to be met;
- the contingent appropriations adopted in the 2015 Supplemental Budget from FY 2016 revenues will not be fully funded; and
• the spending policy reserve accounts will not receive additional deposits.

The CREG update ended on a note of caution. "If coal production declines further, if natural gas prices slide further after the completion of the winter withdrawal season, or if oil prices or production decline again in the next three months, the shortfall could be worse."

Governor Matt Mead issued the following statement, "I appreciate the CREG’s work to keep us apprised of the revenue situation," said Governor Mead. "Declining revenues are not unexpected and look to continue in the near future. I have asked state agencies to reduce general fund spending in budgets by 8% in preparing for the 2017 supplemental budgets."

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**Wyoming’s Economy Worsening in 2016**

The Economic Analysis Division in the Wyoming Department of Administration and Information is now doing a coincident indicator index with the quarterly MACRO Report. Below are highlights. The MACRO Report is a quarterly publication comprised of charts focusing on employment, energy, state revenues, and other indicators pertaining to Wyoming. According to the report, state unemployment rates rise due to mining sector losses; supply glut of natural gas and oil continue to plague Wyoming producers.

- **Employment - Job Losses Increase in 2016 as Mining-Related Industries Continue to Contract.** Statewide employment fell by 8,800 workers compared to last February. The state has experienced ten consecutive months of year-over-year job losses. At the state level, jobless claims for all sectors through the end of March 2016 increased by 1,819 or 17.4% compared to a year ago. Wyoming’s seasonally adjusted unemployment rate hit 5.0% in February, up from the 3.8% rate of February 2015.

- **Energy - Weak Prices and Declining Production Continue to Plague Wyoming’s Energy Portfolio.** Opal natural gas price for March averaged $1.50 per mcf while WTI oil rebounded to $37.57 per bbl. January 2016 natural gas production was 3.1% behind last year while oil production lagged 9.7% and February 2016 year-to-date coal production had fallen by 27.7%. The oil rig count was 5 in February compared to 25 one year ago while oil & gas jobs in February declined by 5,000 in a year-ago comparison. February’s oil & gas job count of 12,000 was the lowest seen in the state since March of 2004.

- **Revenues - Curtailed Drilling Activities Have Severely Impacted Fiscal 2016 Revenues.** The first nine months of FY 2016 saw sales and use tax collections lagging last year by $129.3 million or 20.3%; none of the industry sectors that were tracked recorded year-over-year gains while Campbell, Converse, and Natrona counties accounted for 68.0% of the losses. After eight months of FY16, severance tax revenue trailed last year by $211.6 million or 33.7%.

- **Personal income and house price appreciation - Personal income for Q4 of 2015 saw a decline of 0.1% for the state.** Wyoming saw modest but steady home price appreciation in 2015; Casper’s home price appreciation slowed down throughout 2015.
while Cheyenne saw impressive growth.

**Coincident Index: WY, CO, NE, & U.S.**

**Year-over-Year Percent Change in Index Values**

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**Highlights from the Wyoming Insight Report**

The Economic Analysis Division in the Wyoming Department of Administration and Information publishes the Wyoming Insight Report, which gives a quick overview of energy prices, tax collections and employment. The bulleted items below came from the March Update. *(Read the March Wyoming Insight Report.)*

- **State & local shares of 4% sales and use tax collections:** After eight months of fiscal 2016 (July 1, 2015 through February 29, 2016), sales and use tax collections were lagging fiscal 2015 by $114.9 million or 19.9 percent. Teton and Weston counties outpaced the rest of the state in dollars collected. Collections for Weston and Lincoln counties grew the fastest among all 23 counties.

- **State & local shares of 4% sales and use tax collections:** Each of the twelve industries tracked reported a loss in collections when compared to a year ago. The transportation & utilities sector incurred the smallest decline (-0.2%) while mining & logging had the largest drop off (-48.4%).

- **Nonfarm wage and salary employment:** Overall, Wyoming lost 8,800 jobs in February compared to a year ago, decreasing at a rate of 3.0 percent. Industries associated with goods production lost 7,200 jobs, while service-providing jobs declined by 1,600, both in comparison to a year ago. The private sector decreased at a 4.5 percent rate, resulting in a reduction of 10,000 jobs while government jobs increased by 1,200 from a year ago.
• **Oil & gas jobs:** Numbered 12,000 in February, 5,000 fewer when compared to a year ago

**2016 State Business Climate Index**

Wyoming tops the Tax Foundation 10 best states in this year’s Index.
SAVE THE DATES!!

- The Interim Revenue Committee reception will be held on September 21 in Buffalo.
- The WTA annual meeting will be held on October 28 in Laramie.